



Five reasons Alabama utilities need a formal rate review



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Alabama Public Service Commission member Terry Dunn has asked for a formal rate review of the largest utilities, but fellow commissioners balked.

Forget the politics and partisanship, the corporate spin and the subterranean smears.

Alabama's largest utilities, subject as they are to regulation by the Public Service Commission, need a formal rate review.

And here are the top five reasons why.

5. Because times change.

Natural gas prices have plummeted of late. Prices dropped 56 percent over the last five years, and 38 percent over the last decade, according to industry benchmarks set at the Henry Hub terminal in Louisiana.

At the same time, gas prices in Alabama rose. At Alagasco, the state's largest gas company, rates climbed about 20 percent in that decade.

That's not a smoking gun, of course. It is more complicated than merely buying and selling gas. But it is a reason, again, to look.

4. Because what's good for the cook is not necessarily good for the goose.

For three decades now, the PSC has allowed Alabama's largest utilities a return on equity above 13 percent. That's the minimum, and it's still far above the national average. It is, frankly, enough to cause utilities across the U.S. to gape.

The range has shifted slightly over the years, but it now allows the utilities a return in the range of 13-14.5 percent. If the return goes down, rates can go up, and vice versa.

But focusing on the range isn't the trick. The head-scratcher is how we settled on a system that actually encourages Alabama utilities to spend as much as they can to produce and deliver energy.

The more it costs, after all, the more they get to charge.

3. Because fair is fair.

As al.com's Ben Raines has reported (to loud protestations from the power company), Alabama is a buy-low-sell-high market. Alabama Power Co. spends less than its neighbors to produce electricity, but sells that power to Alabama residential and commercial customers at higher rates, [he reported](#).

Between 2006 and 2011 Alabama Power produced the electricity it sold to customers a billion dollars cheaper than Georgia Power could have produced it, Raines found. Yet the company sold it to Alabama customers for \$1.5 million more than Georgia could have sold it.

2. Because fair is fair, part II.

Raines also found that customers of Alabama's two largest gas utilities - Alagasco and Mobile Gas -- [pay more than double the rates of customers in Mississippi](#). He reported, again to protestations from the utilities, that Alagasco can charge customers triple what a Georgia utility can charge for operations and maintenance costs. Those costs translated to more than a quarter billion dollars charged to Alabama customers in 2010.

1. Because politics isn't power in Alabama. Power is politics.

And because regulation of all that power needs to be as transparent as possible.

In the 9-year period between 2003 and last year, the regulated monopoly that is Alabama Power Co. spent more than \$178 million to sway public opinion and influence politics.

It comes to \$20 million a year. It comes under the heading, on the power company's reports to the Federal Energy Regulatory Commission, of "expenditures for certain civic, political and related activities."

[FERC](#) defines that category as a place for reporting money spent to influence public opinion, public officials or public actions.

That category, by the way, does not show up on you power bill. But Alabama Power spends far more than other utilities in that area.

It is money spent by a government-sanctioned, regulated monopoly on lobbyists, political operatives and PR.

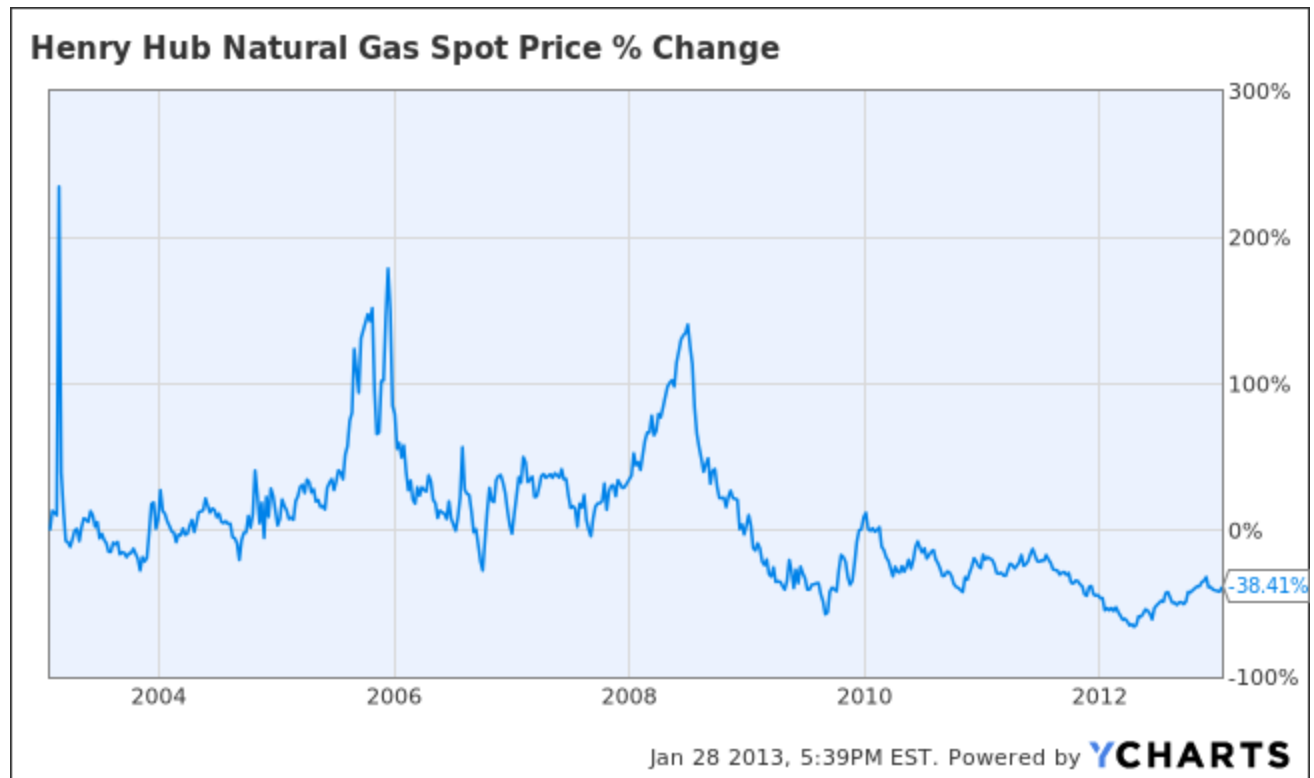
To maintain the status quo.

Alabama Power has argued that a big chunk goes for the civic good, too, and it might.

But much is spent for influence. And it is spent for times such as these.

When the utilities think the status quo is dandy, and the people start to wonder.

John Archibald's column appears in the Birmingham News and on al.com. Email him at jarchibald@al.com



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